

*Senate Budget and Fiscal Review—Wesley Chesbro, Chair***SUBCOMMITTEE NO. 2****Agenda**

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1:30
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0552 Office of the Inspector General

The Office of the Inspector General (OIG) has the responsibility for oversight of the state's correctional system through audits and investigations of the boards and departments within the Youth and Adult Correctional Agency. Chapter 969, Statutes of 1998 changed and expanded the role of the Inspector General and re-established the OIG as an independent entity reporting directly to the Governor. In addition, Chapter 338, Statutes of 1998 requires the OIG to review Level 1 and Level 2 Internal Affairs investigations of the boards and departments within the Youth and Adult Correctional Agency.

OIG – Summary of Program Expenditures					
	(dollars in thousands)				
Program	2002-03	2003-04	2004-05	Change	Percent Change
Office of the Inspector General	\$ 8,940	\$ 4,724	\$ 0	-\$ -4,724	n/a
Authorized Positions	83.4	42.9	0	-42.9	n/a

Budget Request. The budget proposed elimination of the OIG effective July 1, 2004, with select oversight functions to be assumed by the Secretary for the Youth and the Adult Correctional Agency (YACA). For 2003-04, the budget for OIG was reduced by \$6.7 million.

Current Year Deficiencies. Due to difficulties in reducing personnel and operating expenses in such a short time frame, the OIG requested deficiency funding of \$1.6 million for the current year. In addition, as part of the plan for OIG to continue operations in 2004-05, the DOF submitted a deficiency request for \$334,000.

Adjustments from Previous Years. For the last several years the total budget for the OIG has decreased from nearly \$10.9 million and 97 positions in 2001-02 to the Finance Letter proposal of \$3.3 million and 28 positions for 2004-05. The major cuts include:

- Expiration of 10 limited term positions on June 30, 2002 -- \$704,000.
- Unallocated state operation reduction (Section 3.90) -- \$292,000.
- Reduction of 2.5 positions and closure of Southern California field offices -- \$366,000.
- A reduction of 9.4 positions -- \$1,000,000.
- A reduction of 19 positions and \$1.8 million as part of the proposed budget for 2003-04.
- An unallocated \$5 million reduction in the 2003-04 budget.

Workload. The OIG reports the following workload.

- Complaints received increased from 1,572 in 2000 to 4,515 and 5,652 cases in 2001 and 2002, respectively. There was a small decrease in complaints received – 5,565 in 2003.
- Investigation opened declined from 299 in 2000 to 181 in 2001. The number increased to 508 cases in 2002. 341 of the cases opened in 2002 were assigned to a newly instituted rapid response team, to address complaints involving urgent health and safety issues.

Investigations opened in 2003 declined to 226. Of the 226 investigations opened, 147 were rapid response.

- Investigations closed increased slightly from 291 cases in 2000 to 306 cases in 2001. The number increased to 456 cases in 2002, which includes 290 rapid response cases. In 2003 the number of closed investigations decreased to 322, which includes 199 rapid response cases.
- Five management review audit reports were issued in 2001 and three in 2002. Three management review audits were issued in 2003.
- Six special review reports were issued in 2001 and ten in 2002. Eight special reviews are were issued 2003.

Note for 2003 workload.

In August 2003, the OIG's budget was reduced from 93 positions to 24. In addition, the Governor's proposed 2004-05 budget eliminated the OIG. As a result, during the last five months of 2003 few projects were initiated, and the focus of the activity was on the closing of the OIG.

1. Finance Letter Request.

The Administration has submitted a Finance Letter requesting a decrease of \$630,000 and six positions at the YACA to reflect the reduction of the proposed funding at YACA to carry out the oversight functions required of the OIG. The Finance Letter also requests an increase of \$3.3 million and 28 positions at the OIG to continue operations in 2004-05.

Positions at OIG			
Current Positions		Proposed Positions for 2004-05	
Positions	Classification	Positions	Classification
1	Inspector General	1	Inspector General
1	Chief Deputy Insp General	1	Chief Deputy Insp General
1	Dep Insp General, In-Charge	1	Dep Insp General, In-Charge
2	Sr Deputy Inspector General	2	Sr Deputy Inspector General
15	Deputy Inspector General	13	Deputy Inspector General
1	SSM II Supervisory	1	SSM II Supervisory
1	Staff Info Systems Analyst	1	Staff Info Systems Analyst
1	Associate Personnel Analyst	1	Associate Personnel Analyst
1	Office Technician	2	Office Technician
1	Office Services Sup II	1	Associate Govt Program Analyst
		1	Executive Assistant
		1	CEA III
		1	Staff Counsel
25	Total	28	Total

What is the appropriate amount of funding for the OIG? The LAO believes that the size of the OIG should be based on the size of the correctional system, the level of oversight responsibility the Legislature requires of the OIG, and the role of OIG in relation to other investigation efforts such as CDC's Office of Investigative Services. The LAO indicates that initially, a restoration of

the current-year funding level of \$2.8 million (and 24 positions) would seem reasonable. In subsequent years, funding could be based on a plan required to be submitted to the Legislature by the incoming Inspector General as part of the 2005-06 budget.

Staff Comments. The Administration has indicated that it is currently considering additional changes for the OIG in the budget year. Any additional changes would be released at the time of the May Revision.

Given the reduction in the size of the OIG from previous levels, the Subcommittee may wish to ask the OIG the following questions.

- How will the OIG prioritize its functions to ensure that the mission of the office is achieved, even with fewer resources?
- Does the Inspector General envision any organizational or structural changes to the Office?
- What is the optimal size of the OIG?

Staff Recommendation. At this time, staff recommends approval of the Finance Letter. The Administration is considering additional changes for the OIG budget that will be released at the time of the May Revision.

Action.

2. Options for Strengthening the OIG's Oversight Role.

In its *Analysis*, the LAO notes that although the Office of the Inspector General has made several significant findings and recommendations over the years, few of these have been acted upon by the Youth and Adult Correctional Agency. The Inspector General's role has been mainly to conduct audits and investigations within the correctional system and report its findings. However, the LAO notes that there is no mechanism in state law for routinely holding the correctional system accountable for addressing OIG's findings, and thus little incentive for departments to implement OIG's findings and recommendations. To address this concern, the LAO recommends that the Legislature consider the following options.

Greater Public Access to Investigations.
Require Annual or Biannual Reports to the Legislature.
Appointing Inspector General for a fixed term in office.

Staff Comments: SB 1342 (Speier and Romero), SB 1352 (Romero and Speier), and SB 1768 (Romero) are scheduled to be heard in Senate Public Safety on April 20. These bills would provide for changes in the duties, responsibilities and authority of the OIG. The subcommittee may wish to ask OIG whether it anticipates proposing any statutory changes to the Office at the May Revision.

Informational Item. No Action Necessary.

0550 Secretary for Youth & Adult Correctional Agency

The Youth and Adult Correctional Agency (YACA) includes the Department of Corrections, Department of the Youth Authority, the Board of Prison Terms, the Youthful Offender Parole Board, Board of Corrections, Prison Industry Authority, the Narcotic Addict Evaluation Authority, and the Commission on Correctional Peace Officers' Standards and Training. The Agency provides communication, coordination, and budget and policy direction for the departments and boards.

January Budget Request. The total proposed budget for the Youth and Adult Correctional Agency is \$1.7 million, which is an increase of \$630,000, or 54.2 percent, from estimated current year expenditures. Of this amount, General Fund support increases by \$630,000 to a total of \$1.5 million. The remainder of the funding is from reimbursements.

YACA – Summary of Program Expenditures					
Program	(dollars in thousands)			Change	Percent Change
	2002-03	2003-04	2004-05		
Secretary for Youth and Adult Correctional Agency	\$1,147	\$1,163	\$1,793	\$630	54.2%
Authorized Positions	10.0	8.9	14.9	6	67.4%

Control Section 4.10 Reduction. Pursuant to Control Section 4.10, YACA was reduced by \$99,000 and 1.3 positions.

1. Finance Letter Adjustment.

Finance Letter Request. The DOF has submitted a Finance Letter requesting a decrease of \$630,000 and 6 positions from YACA. These positions had originally been proposed to carryout the oversight functions of the OIG. This Finance Letter would eliminate these funds and provide \$3.3 million for the OIG. If adopted the Finance Letter would provide YACA with the same funding as in the current year.

Staff Recommendation. Staff recommends approval of the Finance Letter.
Action.

2. Oversight of Departments within YACA.

The YACA's responsibility as parent agency is to provide budget and policy direction among the departments within the Agency, as well as to ensure coordination of resources and program.

In the last several years, a number of the departments within YACA have faced a number of high profile issues in the areas of lawsuits, deficiencies, effectiveness of treatment programs, and efficiency of operations.

- What is YACA doing to make the agencies it oversees more effective and more efficient?

3. \$400 Million Unallocated Reduction

Budget Request. The Governor's *Budget Summary* from January indicated that the Secretary of YACA was developing a proposal with the goal of achieving a savings of \$400 million for the budget year. At the joint hearing on February 11 between Budget Subcommittee #2 and the Select Committee on the California Correctional System, members of both committees requested that details of the plan be made available in time to discuss them at the April Subcommittee hearing regarding the CDC. No new information has been released regarding the plan and the administration indicates that the plan will not be released prior to the May Revise.

- Does YACA have any information on plans for reduction beyond the general information released at the time of the budget?
- Will any part of the plan require implementation which could reduce the amount of savings in the budget year?
- Does YACA still have the full \$400 million as a target in the budget year?

Informational

4. CDC Reports

Monthly Updates on Budget Reforms. The Budget Act of 2003 contains language requiring the CDC to provide monthly updates regarding the status and implementation of the reforms that were adopted. To date, the CDC has only submitted the reports for September and October to the Legislature.

The Legislature approved this language in order to have some oversight over the implementation of the reforms and to keep up-to-date on the fiscal implications. The budget from last year assumed savings of \$191 million in the current year. With updates at the time of the release of the budget in January, those savings for the current year were reduced to \$85.3 million. New information provided to the Subcommittee have reduced the savings to \$15.1 million.

- What is the status of these reports? Why were the reports concerning implementation of the reforms never released to the Legislature?

Institution-by-Institution Reporting. Last year, in order to get more information on institution budgets and as a way to try to build some additional accountability into the process, the Legislature adopted the following budget bill language requiring CDC to report the operating budget of each institution, including the number of authorized and vacant positions. The report was due January 12, 2004 and has still not yet been received.

- What is the status of the report? What caused the delay in the release of the report?

Staff Recommendation. Staff recommends holding the budget for YACA open, pending receipt and review of the outstanding CDC reports, and pending receipt of the proposal for allocating the \$400 million reduction.

Action.

5440 Board of Prison Terms

The Community Release Board was established in 1977 and renamed the Board of Prison Terms (BPT) in 1980. The board considers parole release and establishes the length and conditions of parole for all persons sentenced to prison under the Indeterminate Sentence Law, persons sentenced to prison for specified terms of less than life, and for persons serving a sentence for life with possibility of parole. The board is also responsible for parole revocation hearings and for reviewing applications for clemency. The board has nine commissioners appointed by the Governor and confirmed by the Senate.

Budget Overview. The budget proposes \$28.8 million from the General Fund for the Board of Prison Terms. The proposal represents a decrease of \$2.2 million, or 7.2 percent below current-year expenditures. Total authorized positions are proposed to be 221, which is a decrease of 10 positions from the current year.

Board of Prison Terms -- Program Expenditures					
Program	<i>Expenditures (dollars in thousands)</i>				
	2002-03	2003-04	2004-05	Change	Percent Change
Board of Prison Terms	\$29,771	\$24,967	\$25,205	\$238	1.0%
Total Authorized Positions	205.1	174.4	174.4	0	0.0%

Control Section 4.10 Reduction. The BPT was reduced by \$1.3 million General Fund and 21.5 positions pursuant to Control Section 4.10.

Issues

1. Valdivia v. Schwarzenegger.

Current Revocation Process. The current parole revocation process begins when a parole agent or local law enforcement agency detains a parolee for a suspected violation of the law or conditions of parole. If the parole agent and his or her supervisor feel that parole should be revoked, the parolee is taken into custody and the case is referred to the Board of Prison Terms (BPT) for review. After an initial administrative review of the case, the BPT presents the parolee with a "screening offer" which is a proposal for a specific term of incarceration in exchange for the immediate conclusion of the case. If the parolee accepts the screening offer, he begins the sentence immediately. If the parolee rejects the offer, he must continue to wait in jail or at the state reception center where he is being confined until a revocation hearing can be held.

At the revocation hearing, a BPT deputy commissioner reviews the parolee's case and hears testimony from the parole agent, parolee, and witnesses. Based on the information provided at the hearing, the deputy commissioner decides whether there is sufficient evidence to revoke the parolee and, if so, what sentence would be most appropriate.

According to the LAO, parole agents referred approximately 90,000 revocation cases to BPT last year, and BPT held about 40,000 revocation hearings. The LAO indicates that BPT spent over \$14 million to administer the revocation process last year. This total does not include the costs to the CDC for parole agents' role in revocation or the costs to incarcerate revoked parolees.

Class Action Lawsuit. In 1994, a class action lawsuit was brought against the state, on behalf of parolees, alleging that the parole revocation process violates their rights to due process under the Fourteenth Amendment of the United States Constitution. Specifically, the plaintiffs argued that parolees had no opportunity to challenge the contents of the case against them, present their own evidence, or question witnesses prior to the revocation hearing. Plaintiffs also claimed that the length of time it takes to conduct the revocation process—over a month and sometimes longer than three months—was excessive. In June 2002, a federal district court ruled in favor of the plaintiffs and ordered the state to work with plaintiff's counsel to develop a remedial plan to rectify the identified problems.

Remedial Plan. In December 2003, the parties in the case jointly submitted to the court their plan which includes several significant reforms to the revocation system. These reforms are designed to ensure a timely and fair revocation process for parolees. The most significant of the reforms are as follows.

Establishes Probable Cause Hearing. The plan creates a probable cause hearing to take place prior to the revocation hearing. The probable cause hearing must take place within ten business days of when CDC notifies the parolee that he is being charged with a violation. At the probable cause hearing parolees will be allowed to present evidence on their own behalf, and they will have an opportunity to accept or reject BPT's screening offer.

Requires Revocation Hearing Within 35 Calendar Days. The plan also requires that every revocation hearing be held within 35 days of the parolee's arrest rather than the three months or longer it can take currently.

Requires Attorneys for All Parole Violators. The plan requires that CDC provide attorneys to all parolees who are charged with a violation. These attorneys will prepare the parolee's case for both the probable cause hearing and the revocation hearing. Under current practice, only parolees with disabilities, such as a learning disability that would impair their ability to understand the proceedings, are provided an attorney for their revocation hearing.

Permits Greater Use of Intermediate Sanctions. The implementation plan also allows deputy commissioners of BPT to assign nonviolent and non-serious parole violators to intermediate sanctions, such as electronic monitoring, in lieu of prison time. This provision builds on the reforms instituted by CDC in the current year that allow parole agents to utilize intermediate sanctions, thereby reducing the number of nonviolent parole violators returned to prison. The agreement assumes that the use of intermediate sanctions by parole agents and BPT will reduce the total caseload of parolees in the revocation process, thereby allowing BPT to conduct the remaining hearings within the shortened time limits established in the agreement.

Establishes Implementation Deadlines. The remedial plan requires BPT and CDC to begin the implementation of all provisions except the probable cause hearing by July 2004. All provisions of the remedial plan must be fully implemented by July 2005.

Analyst's Recommendation. The LAO noted at the time of its analysis that the CDC and BPT were unable to identify the fiscal impact of the *Valdivia* settlement, and that no expenditures were proposed in the Governor's budget for the implementation of the remedial plan. Administration officials state that an implementation proposal will be part of the May Revision. However, the LAO raised concerns that submission of the proposal at that time would provide limited opportunity for review by the Legislature. For that reason, the LAO recommends that BPT and CDC report to the Legislature at budget hearings on the fiscal impact of the *Valdivia* remedial plan. In particular, the LAO recommends that the departments provide their estimates of the number of probable cause and revocation hearings that will occur, the staffing required to implement the plan, the amount of any offsetting savings, the projected impact on local governments, and any other expected costs.

Staff Comments. The implementation of the *Valdivia* remedial plan will have a significant operational and fiscal impacts on both CDC and BPT. For BPT, the Administration indicates that the budget will change substantially with the implementation of *Valdivia*.

- What are the estimated fiscal impacts on BPT of *Valdivia* remedial plan?
- Does BPT have any estimates for offsetting savings from the remedial plan due to reduced revocations?

Staff Comments. No formal proposal is before the Subcommittee at this time.

2. Hearings for Life-Term Inmates.

Background. Certain offenders in California prisons, particularly those punished for murder, are serving so-called indeterminate sentences in which the period of time to be served in prison before release to parole is not fixed in advance by the court. These indeterminately sentenced offenders are often called "lifers" even though most are eventually legally eligible for release. The BPT is the state agency primarily responsible under state law for deciding when those lifers who have served the minimum required prison time, and thus are now eligible for parole, will actually be released to the community.

In March 2001, the OIG issued a report that made note of the growing backlog of life-term cases. At hearings last year, BPT reported that the backlog was approximately 2,000 cases. Because of the backlog, most of the hearings were delinquent by more than six months.

The Legislature subsequently approved SB 778 as a temporary measure to assist the BPT in reducing the growing backlog of cases. The legislation allowed BPT to hold two-person panel hearings.

In a follow-up report on OIG's 2000 audit of BPT, OIG indicated that except for the implementation of SB 778, BPT's efforts to improve efficiency and increase hearing capacity had been minimal. Due to the fact that the two-person boards were a temporary measure, the OIG report had noted concerns that once they expire, the backlog may begin to grow again.

In budget hearings last year, the BPT indicated that as of April 2003, the backlog was 523 cases. BPT reports that the backlog of cases as of April 2004 has increased to 1,646.

Staff Recommendation. The Subcommittee may wish to ask BPT for the status of the backlog for lifer hearings.

- What are the reasons for the increase in the backlog from last year, and how will BPT reduce the backlog?
- What operational changes will BPT make to ensure that once the backlog is reduced, it will not return?

Informational issue.

3. Backlog of Appeals from Inmates and Parolees.

In the OIG's follow-up audit on the BPT from two years ago, the OIG reported that the BPT's processes are not adequate to handle appeals in a timely manner. As a result there was a backlog of over 2,200 appeals from inmates and parolees.

New Guidelines Implemented Last Year. Previously, the BPT had no time limits to respond to appeals, although inmates and parolees must submit an appeal within 90 days of receiving written confirmation of a board decision. The BPT reports that last year it changed its guidelines for hearing appeals. For revocations, the guidelines are 90 days, and for lifer appeals the guidelines are 120 days. The number of appeals not completed within these time limits are 205 for lifer appeals and 311 for revocations.

Proposed New Regulatory Changes. The BPT indicates that it is planning regulatory changes that would eliminate the formal appeals function. BPT would maintain an improved quality control unit and allow formal appeals to go directly through the court process. The BPT indicates that staffing for this function will be adjusted as part of the Valdivia May Revise proposal.

Staff Recommendation. The Subcommittee may wish to ask the BPT to describe the regulatory changes for the appeals and to explain the rationale for the changes.

Informational issue.

4. Monitoring Compliance with Armstrong.

Background. In Armstrong, the United States District Court found that the BPT is in violation of Title II of the 1992 Americans with Disabilities Act (ADA), Section 504 of the Rehabilitation Act of 1973, and the due process clause of the 14th Amendment to the Constitution. The Armstrong court decreed that equal access for disabled prisoners and parolees was not being provided in the hearing process, and issued a permanent injunction requiring that the BPT comply with specified remedies.

The permanent injunction requires that the BPT accommodate the disabled. It was the impetus for expanded staffing and creation of the BPT's ADA Compliance Unit. Plaintiffs' attorneys through their monitoring visits and legal review of other BPT functions scrutinize compliance with all of the injunction's requirements, e.g. a special database identifying disabled prisoners and parolees. The quarterly Armstrong court orders requiring that the BPT pay Plaintiffs' attorney fees relate to these ADA compliance functions. These fees have generally varied in the range between \$300-500, 000 per year.

Budget Request. The budget proposes an augmentation of \$238,000 to pay for attorney fees for monitoring compliance with Armstrong.

Staff Comments. BPT indicates that it expended \$391,000 for this purpose in 2002-03 and \$376,000 in the current year from its general Operating Equipment & Expenses (OE&E) budget. BPT indicates that because of recent reductions they can no longer fund this activity from existing resources.

Staff Recommendation. Staff recommends approval of the request for \$238,000.

Action.

5. Use of Deputy Commissioners.

In 2002, the Inspector General reported that deputy commissioners were not sufficiently supervised and that the BPT could make use of significantly fewer deputy commissioners.

- What measures have been adopted to improve utilization and supervision of deputy commissioners?

Informational Item. No Action Required.

5240 DEPARTMENT OF CORRECTIONS

Budget Proposal. The budget proposes \$5.3 billion for the CDC, which is a decrease of \$446.6 million, or 7.8 percent, from the revised current-year budget. General Fund expenditures are proposed to increase by \$413.4 million, or 8.7 percent above current-year expenditures and federal fund expenditures are proposed to decrease by \$852.3 million. In the current year, the Administration reduced General Fund by \$852 million and increased federal funds by the same amount to reflect one-time expenditure of federal funds provided to California from the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.

CDC – Source of Funding							
Fund	<i>Expenditures (dollars in thousands)</i>					<i>Percent</i>	
	2000-01	2001-02	2002-03	2003-04	2004-05	Change	Change
General Fund	\$4,525,648	\$4,934,700	\$5,183,248	\$4,742,236	\$5,155,646	\$413,410	8.7%
Federal Trust Fund	2,565	1,652	2,057	854,748	2,476	-852,272	-99.7%
Inmate Welfare Fund	45,157	45,645	46,816	53,619	51,474	-2,145	-4.0%
Special Deposit Fund	626	1,516	1,163	1,010	1,010	0	0%
Reimbursements	91,239	103,122	101,723	78,575	72,788	-5,787	-7.4%
Totals, Programs	\$4,665,235	\$5,086,635	\$5,335,007	\$5,730,188	\$5,283,394	-\$446,794	-7.8%

Authorized Positions. As shown at the bottom of the next table, authorized positions for the department are proposed to increase by 1,862, or 4 percent, above the current year numbers to 48,655. Of this increase, 1,239 positions are related to a proposed increase in the budgeted relief factor for correctional officers, sergeants, and lieutenants.

CDC – Summary of Program Expenditures						
Program	<i>Expenditures (dollars in thousands)</i>				<i>Percent</i>	
	2002-03	2003-04	2004-05	Change	Change	
Institution Program	\$3,978,641	\$4,153,235	\$4,078,694	-\$74,541	-1.8%	
Health Care Services Program	878,941	974,493	990,396	15,903	1.6%	
Community Correctional Program	477,424	602,459	614,303	11,844	2.0%	
Administration	136,208	139,099	136,050	-3,049	-2.2%	
Distributed Administration	-136,208	-139,099	-136,050	3,049	-2.2%	
State Mandated Local Program	1	1	1	0	0.0%	
Unallocated Reduction			-400,000			
Total	\$5,335,007	\$5,730,188	\$5,283,394	-\$446,794	-7.8%	
Total Authorized Positions	44,453.5	46,793.2	48,655.3	1,862.1	4.0%	

The average cost per inmate has been steadily increasing for the last several years.

Average Cost per Inmate at CDC					
1999-00	2000-01	2001-02	2002-03	2003-04*	2004-05*
\$22,737	\$25,307	\$27,705	\$28,654	\$30,929	\$33,152

* Projected

Major Budget Adjustments for 2004-05 (dollars in thousands)			
	Issue	Positions	Dollars
1	Adjustment to the budgeted relief factor for Correctional Officers, Sergeants, and Lieutenants	1,238.8	\$99,513
2	Transfer of local assistance court costs to the Trial Court Funding budget item		-\$2,556
3	Patton State Hospital medical guarding and transportation.	10.6	\$723
4	Augmentation related to the Health Information Portability and Accountability Act of 1996 (one year limited-term).	6.0	\$408
5	Conversion of 20 Clinical Psychologist positions to Psychology Associate positions.		-\$456
6	Spending Authority increase for the Inmate Welfare Fund (special fund).		\$2,500
7	“Pending unallocated reduction” proposal that the Secretary of the Youth and Adult Correctional Agency (YACA) is developing. As part of the May Revision the actual savings amount will be allocated to the affected departments within YACA.		-\$400,000
8	Creation of a Closure Commission that will proactively evaluate and recommend future facility closures for CDC and the Youth Authority.		
9	Budget year savings pursuant to personnel adjustments required in Control Section 4.10 of the 2003 Budget Act.	-765.3	-\$42,900

In addition to these increases, the budget includes an additional \$14.3 million for improvements to the delivery of medical services at CDC institutions. This funding is related to full-year funding for improvements implemented in the current year and to implement improvements in an additional five institutions pursuant to the Plata lawsuit settlement.

The budget includes a baseline adjustment increase of \$5.4 million for the activation of 500 substance abuse treatment slots.

*Issues***1. Population Projections.**

Historical Population Trends. Over the last 15 years, the CDC population has nearly doubled from 82,872 on June 30 1989 to 160,931 on June 30, 2003. More recently, the institution population has been relatively flat. In the last five years, the institution population has decreased slightly from 162,064 on June 1999, to 160,931 on June 30 2003.

Historical Institution and Parole Populations (as of June 30th of each year)		
Year	Institution Population	Parole Population
1989	82,872	53,779
1990	93,810	63,697
1991	101,995	74,997
1992	104,352	85,835
1993	115,534	83,887
1994	124,813	85,197
1995	131,342	91,456
1996	141,017	98,013
1997	152,506	100,828
1998	158,207	108,750
1999	162,064	112,494
2000	162,000	119,298
2001	161,497	119,636
2002	157,979	120,336
2003	160,931	116,173

Spring 2004 Institution and Parole Population Estimates (as of June 30th of each year)		
Year	Institution Population	Parole Population
2004	160,122	115,475
2005	157,218	117,069
2006	156,952	113,111
2007	156,889	109,854
2008	156,884	109,070
2009	157,623	107,087

Population is Projected to Decrease Slightly from Current Levels in Spring 2004 Estimates. On June 30, 2003 the actual population in CDC was 160,931. The Spring 2004 population projections estimate that the June 30, 2004 inmate population decrease slightly to 160,122. The Spring 2004 projections estimate that the population will decrease by 2,904 to 157,218 by the end of the budget year. For the next five years, the population projections are estimated to be relatively flat with the institution population currently projected to be 157,623 by June 30, 2009.

Spring 2004 Population Projections Significantly Higher Than Population Assumptions Contained in the Budget. The Table on the top of the next page highlights the increase in the average daily population (ADP) estimated in the Spring projections compared to the levels assumed in the budget. *In order to fund the difference in the population assumptions, the budget for CDC would have to be augmented by approximately \$87.8 million in the current year and \$149.3 million in the budget year.* Staff notes that these figures do not take into account any additional potential reform proposals that would affect population. More information will be available at the time of the May Revise.

CDC Average Daily Population (ADP) in Budget Versus Spring 2004 Projections.			
Fiscal Year	ADP in January Budget Proposal	Spring 2004 ADP Projections	Difference
2003-04	156,636	161,876	5,240
2004-05	148,390	157,259	8,869

Factors Affecting New Population Projections. The CDC indicates that increases in new admissions have been primarily responsible for the upward trend in population. Staff notes that delays in the implementation of the reforms also may have eroded some savings assumed in the budget.

Increased Felon Admissions. Felon admissions for 2002-03 were up 8.3 percent from 2001-02. This compares to *declines* of approximately 4.9 percent in each of the previous two years. For July-December 2003, total felon admissions were 20,030, an increase of 14.5 percent when compared to the same period one year ago.

Decreased Parole Violators. There were 30,913 parole violators returned to custody from July through December 2003, a decrease of 5,765, or 15.7 percent, when compared to the same time period a year ago.

Without Reforms from Last Year, Population Would Be Increasing Significantly. As can be seen in the Table below, CDC estimates that without the reforms from last year the institution population would increase to 170,523 by June 30, 2006 (Spring 2004 w/o Budget Reductions). In the new projections, the program impact is estimated to reduce population by 11,046 in the budget year. However because of the increase in new admissions, the net impact of new admissions and program reductions for the budget year is a decrease of 6,402 inmates by June 30, 2005.

Institution Population Reconciliation			
	As of June 30		
	2004	2005	2006
Fall 2003 Projection	163,536	163,620	163,347
Spring 2004 w/o Budget Reductions	165,755	168,264	170,523
Trend Impact*	2,219	4,644	7,176
Program Impact**	-5,633	-11,046	-13,571
Net Impact	-3,414	-6,402	-6,395
Spring 2004 Projection	160,122	157,218	156,952

* Includes new admissions and parole violator return rates

** Includes budget program reductions

- What is causing the trend of new admissions?
- Is the recent trend just a short term increase?

Staff Recommendation. Staff notes that the administration will make changes to the population projections in the budget proposal with the release of the May Revise. Staff recommends holding this issue open at this time.

Action.

2. Sentencing and Corrections Policies, What Are Other States Doing?

In a publication from March 2004 entitled *Changing Fortunes or Changing Attitudes? Sentencing and Corrections Reforms in 2003*, the Vera Institute of Justice surveyed the most recent changes to sentencing and corrections policies of states to identify the range of reforms being implemented. The publication also considers whether there is more to these changes than just fiscal cost-cutting measures. John Wool, co-author of the report will present some of the findings of the survey and the conclusions of the report.

3. Update on CDC Reforms Adopted Last Year.

Last year the Legislature approved a number of reforms in the CDC budget. These reforms are highlighted below.

Restructuring Educational and Vocational Training Programs. Many inmates are eligible to receive day-for-day credits but are unable to participate because there are not enough programs available to meet the need. Funding was provided to avoid elimination of existing education program staff and to establish education programs in reception centers.

Drug Treatment Furlough. Under the proposal certain inmates would receive drug treatment in secure, supervised, community residential program for the final 120 days of their sentence.

Expansion of the Mentally Ill Parolees Program. This program provides pre-release planning and enhance community treatment services for mentally ill parolees.

Pre-Release Planning and Re-Entry Programs. CDC revokes approximately 74,000 parolees annually. A 5% reduction in this recidivism rate would result in savings of \$28.7 million. To achieve this reduction, CDC was directed to develop an integrated parole program that would (1) prepare inmates for community re-integration through pre-release planning; (2) develop a new risk assessment tool to ensure that parole supervision is targeted in a consistent and effective manner; and (3) expand the existing PACT program so that parolees have access to available community services upon release.

Substance Abuse Treatment & Control Units (SATCU) & Community Detention.

Approximately, 32,000 low level parolees (no underlying violent or serious commitment offense and no violent or serious priors) become parole violators annually and spend an average of 153 days in custody – 72 days in jail pending revocation and another 81 days in prison – most likely a reception center. The custody cost for these low level parole violators is \$254 million. Further, no programs are available to help reduce the high recidivism risk – particularly related to substance abuse – for these parole violators. Under this proposal, Parole would implement policies that would employ appropriate sanctions for parole violations based on the offense and underlying public safety risk of the parolees. In addition, existing programs would be expanded to provide Parole with placement alternatives:

The Legislature Has Not Received Monthly Reports on Implementation. The Budget Act of 2003 contains language requiring the CDC to provide monthly updates regarding the status and implementation of the reforms that were adopted. To date, the CDC has only submitted the reports for September and October to the Legislature.

Updated Information From CDC Estimates Reduced Savings From Reforms. The budget for CDC was originally reduced by a total of \$191 million due to the expected savings from these legislative reforms. Due to delays in implementation, revised cost estimates, and overlapping savings, at the time of the January budget, CDC estimated that the current year savings would be \$85.3 million. In the recently released data, CDC now estimates savings in the current year will only be \$15.1 million. Savings in the budget year from these proposals was estimated at \$223.3 million with a reduction of 14,748 to the institutions ADP. As can be seen in the Table below, new estimates from CDC reduce the budget year savings to \$106.8 million with a reduction of an estimated 9,381 ADP.

Update on Fiscal Impact of Reforms (Dollars in Millions)								
	2003-04				2004-05			
	January Budget Savings		Updated Savings		January Budget Savings		Updated Savings	
	ADP	Dollars	ADP	Dollars	ADP	Dollars	ADP	Dollars
Educational and Vocational Training	1,706	\$25.5	156	\$2.3	4,645	\$72.3	3,834	\$57.5
Drug Treatment Furlough	438	\$6.8	0	\$4.5	1,500	\$25.3	0	\$17.7
Mentally Ill Parolees Program	888	\$13.1	466	\$6.9	888	\$13.2	1,932	\$31.0
Pre-Release Planning	304	\$4.5	0	\$0	1,208	\$17.6	116	\$1.7
SACTU & Community Detention	2,335	\$34.8	229	\$3.4	6,507	\$94.8	3,449	\$52.0
Total	5,671	\$85.3	851	\$15.1	14,748	\$223.3	9,381	\$106.8

- What are the reasons for the reductions in the amount of estimated savings, especially in the current year?
- Given the significant changes in the estimates, how confident is CDC that the current projections for budget year savings will be accurate?

4. Valdivia v. Schwarzenegger.

Remedial Plan. As noted in the discussion of BPT's budget, in December 2003 the plaintiffs and the state in the case jointly submitted to the court their plan which includes several significant reforms to the revocation system. These reforms are designed to ensure a timely and fair revocation process for parolees. The most significant of the reforms are as highlighted below.

- *Establishes Probable Cause Hearing.*
- *Requires Revocation Hearing Within 35 Calendar Days.*
- *Requires Attorneys for All Parole Violators.*
- *Permits Greater Use of Intermediate Sanctions.*
- *Establishes Implementation Deadlines.*

The budget currently does not propose any expenditures for implementation of the remedial plan.

Analyst's Recommendation. Administration officials state that an implementation proposal will be part of the May Revision. However, the LAO raised concerns that submission of the proposal at that time would provide limited opportunity for review by the Legislature. For that reason, the LAO recommends that BPT and CDC report to the Legislature at budget hearings on the fiscal impact of the *Valdivia* remedial plan. In particular, the LAO recommends that the departments provide their estimates of the number of probable cause and revocation hearings that will occur, the staffing required to implement the plan, the amount of any offsetting savings, the projected impact on local governments, and any other expected costs.

- What staffing at CDC will be required to implement the plan?
- The remedial plan permits greater use of intermediate sanctions. Does CDC have any estimates of savings from the *Valdivia* remedial plan due to reductions in revocations?
- What is the relative magnitude of the costs and savings that CDC estimates for the *Valdivia* remedial plan.

Informational Item

5. \$400 Million Unallocated Reduction

Budget Request. The Governor's *Budget Summary* from January indicated that the Secretary of YACA was developing a proposal with the goal of achieving a savings of \$400 million for the budget year. At the joint hearing on February 11 between Budget Subcommittee #2 and the Select Committee on the California Correctional System, members of both committees requested that details of the plan be made available in time to discuss them at the April Subcommittee hearing regarding the CDC. No new information has been released regarding the plan and the administration indicates that the plan will not be released prior to the May Revise.

Staff Comments. Staff notes that the \$400 million reduction is intended to be allocated across all the departments in YACA. The total General Fund proposed budget for all the YACA agencies is \$5.9 billion – the \$400 million represent a 6.8 percent reduction. The following represent a 6.8 percent reduction for each agency within YACA:

YACA -- \$61,000	BOC – \$91,000	BPT – \$1.7 million
CDC – \$376.7 million	CYA – \$21.5 million	

Analyst's Concerns. The LAO has raised some concerns about the CDC's ability to achieve \$400 million in savings in 2004-05 in light of the major changes that are already underway, and the time it takes to implement significant changes in a department the size of CDC.

Areas for Savings. The LAO points out that in order to achieve significant budget reductions at CDC, as proposed by the administration, consideration must be given to reducing the number of individuals in state custody, the labor costs of providing security and community supervision, or the types and levels of services provided. Based on the budget summary, the savings could also include plans for achieving administrative efficiencies (such as closing institutions), contracting out for services, and improving fiscal control and accountability.

- Does CDC or YACA have any information on plans for reduction beyond the general information released at the time of the budget?
- Will any part of the plan require implementation which could reduce the amount of savings in the budget year?
- Does CDC still have the full \$400 million as a target in the budget year?

Staff Comments. Staff notes that no formal proposal has been presented to the Subcommittee. Staff recommends holding this item open pending release of the plan by the Administration.

Action.

6. Options for CDC Reductions

The Table on the following pages highlights additional alternatives for savings at CDC savings that have been raised in budget hearings and by the LAO in the last several years.. CDC notes that the costs estimates do not take into consideration operating costs, implementation timelines, and in some cases the interrelationship of other proposals (overlap).

Prison Budget Savings Options

SAVINGS

(\$ in Millions)

	2004-05	2005-06
Proposals that Affect New Admissions		
Remove State Prison as a Sentencing Option for the Following Offenses: <i>Petty Theft with a prior, Drug Possession for Sale, Drug Possession, Grand Theft, DUI, Forgery/Fraud, Receiving Stolen Property, Other property Offenses, and Vehicle Theft. Estimates based on a July 2004 implementation date</i>	\$304.1	\$340.8
No Prison for Petty Theft with a Prior. <i>This offense would become a misdemeanor. This would eliminate state prison as a sentencing option for those persons convicted of PC Section 666 (Petty Theft with a Prior) with no other felony and would make the offense a misdemeanor rather than a wobbler (felony/misdemeanor).</i>	27.9	30.2
Reject Short Term Commitments – Persons with 3, 6 or 12 Months to Serve in State Prison would instead go Directly to Parole. <i>This estimate excludes parole violators, lifers, strikers, sex registrants, and offenders with violent or serious priors. Estimates based on a January 1, 2005 implementation.</i>		
-- 0 to 3 months to serve	1.2	3.0
-- 0 to 6 months to serve		
-- 0 to 12 months to serve	29.4	156.3
Proposals that Would Reduce Current Inmate Population		
Release Non Violent Inmates over 60. <i>Release to Parole non violent, non serious Inmates over 60 who are not lifers, strikers, sex registrants, parole violators and no violent or serious priors.</i>	1.7	3.5

Early Release of Inmates. Inmates who have 1,3, or 12 months time remaining to serve on their sentence would be released to parole. The estimate excludes lifers, strikers, sex registrants and offenders with violent or serious priors.		
-- One Month Reduction in Time Served	12.2	24.5
-- Three Month Reduction in Time Served		
-- Thirteen Month Reduction in Time Served	158.8	318.3
Parole Reform Proposals		
Direct Discharge and optional community supervision for specified nonviolent, non serious offenses without a serious or violent prior. Upon completion of the sentence, an inmate would be discharged <u>without</u> going onto parole. The offender would only go back to prison if he commits a new crime and is prosecuted for it.		
For non-violent inmates	159.6	193.3
For nonviolent, non-serious current and prior inmates, non-lifers, non-strikers, and non-sex registrants	107.2	134.0
Early Discharge from Parole for specified non violent, non serious offenders who have 12 consecutive months on active parole. Release of parolee non serious, non violent, non striker, non sex registrant offenders who have remained on active parole for certain periods of time.		
3 months "clean time"	77.2	101.1
12 months "clean time"	34.9	35.6
Expand Eligibility for Intermediate Sanctions. Expand eligibility for Intermediate Sanctions to include offenders who have a violent or serious commitment offense. Current policy excludes all inmates with violent or serious criminal histories. There would be some parolees could be placed into the intermediate sanction process without jeopardizing public safety. LAO option. Unknown savings at this time.		

7. Relief Factor Adjustments

Budget Request. The budget proposes \$99.5 million and 1,238.8 positions in 2004-05 to provide additional relief coverage for posted positions. Posted positions are positions that need to be filled 24 hours a day, seven days a week. Most posted positions are correctional officer assignments, though there are also correctional supervisor, medical, and cook posted positions. The current correctional officer relief coverage for posted positions is 1.67. This means that in order to staff that posted position seven days a week, the department requires not only the full-time officer assigned to the post, but also the equivalent 67 percent of another full-time officer for relief. This proposal would increase the relief factor to a total of 1.76 for officers, sergeants, and lieutenants. The funds and positions are requested for the following:

- \$12.5 million to fund the current relief factor of 1.67. This funding was redirected to pay for filling Institutional Vacancy Plan positions in the 2003 Budget Act, as required by the employee MOU.
- \$2.8 million and restoration of 42.4 positions for salary savings withheld on posted positions in the 2001 Budget Act.
- \$33.6 million and 465.9 positions to increase the existing relief coverage for posted positions to the levels that are currently being utilized. The existing relief coverage would increase as follows: correctional officers from 1.67 to 1.71, correctional sergeants from 1.67 to 1.72, and correctional lieutenants from 1.68 to 1.72.
- \$50.6 million and 730.5 positions for additional relief coverage associated with leave credit usage which is not presently funded, such as training, military leave, bereavement leave, and Family Medical Leave Act (FMLA). This would increase relief coverage to 1.76 for officers, sergeants, and lieutenants.

Under this proposal, an adjustment to this factor would be made annually as a baseline adjustment based on actual relief usage from the previous year.

LAO Concerns. The LAO has raised the following concerns:

- Implementation and fiscal details are lacking.
- CDC may lack necessary fiscal controls.
- Training Provision is biggest new cost driver.

The LAO notes that without such information, it is difficult to assess the proposal's fiscal impact, and to hold CDC accountable for achieving suggested results.

Staff Recommendation. Staff recommends approval of the additional relief factor adjustments. Further, staff recommends that as part of the report on the operating budget for each institution due February 17, 2005 that each institution identify the allocation of the sick leave positions and document their effectiveness in reducing unfunded overtime expenditures related to sick leave, military leave, and FMLA.

Action.

8. Accountability and Fiscal Controls

At the hearing in February, CDC and DOF identified several initiatives to assess accountability and fiscal control to the CDC budget process.

Allotment Methodology. One option for controlling costs at CDC includes the development of a consistent allotment methodology for allocating funding to institutions and holding them accountable for expenditure levels. In the Budget Summary, the Administration has indicated it has become apparent that there is little fiscal accountability among CDC institutions, part of which is related to the institutions having little incentive to expend within the limits of a budget allotment that contains a shortfall from the outset.

- What improvements are being put into place regarding the allotment process.

Institution-by-Institution Reporting. Last year, in order to get more information on institution budgets and as a way to try to build some additional accountability into the process, the Legislature adopted the following budget bill language requiring CDC to report the operating budget of each institution, including the number of authorized and vacant positions.

No later than January 12, 2004, the Director of Corrections shall submit to the chairperson and vice-chairperson of the Committee on Budget in both the Assembly and Senate and to the Legislative Analyst's Office, an operating budget for each of the correctional facilities under the control of the Department of Corrections. For every institution, the operating budget shall clearly identify the number of authorized and vacant employees, the estimated personal service costs, the estimated overtime budget, the estimated benefits budget, the estimated operating expense and equipment budget, and a list of all capital outlay projects occurring or projected to occur during the 2003-04 fiscal year.

The CDC indicates that it is still preparing this report. The DOF has included similar language in the proposed 2004-05 budget, changing only the report date to February 17, 2005.

- What is the status of the report? What caused the delay in the release of the report?

Reconciling Post Assignment Schedules. In order to ensure that each institution is held accountable for its budget, DOF has indicated that CDC will be required to reconcile its post assignments with its approved and proposed budgets, as well as determine meaningful allotments for the institutions that are predicated upon the reconciled post assignments and standardized costs of operating expenses. DOF believes that this process will cause any unauthorized custody-related expenditures to surface and will provide a tool to hold institution management accountable for their expenditures.

The DOF has proposed the following budget bill language.

No later than 60 days following enactment of this Act, and subsequently on February 10 and upon release of the May Revision, the Director of Corrections shall submit to the Director of Finance the Post Assignment Schedule for each institution, reconciled to budgeted authority and consistent with approved program, along with allotments consistent with the reconciled Post Assignment Schedule for each institution.

Results of Initial Reconciliation. In a letter dated April 5, 2004, Secretary Hickman reported on the initial reconciliation. The analysis showed that CDC is expending salaries and wages for regular ongoing positions, overtime, and temp help funds equivalent to 1,905.2 personnel years (PY) above their authorized level. The analysis indicates that YACA has determined that within that number there are PY equivalents associated with authorized functions and activities. The letter describes the reasons for the overrun of the remaining 1,238.7 PY equivalents.

- (a) 327.9 PY for population increases above the current year budget. The population adjustments at the May Revise will propose budget authority for these positions.
- (b) 490 PY related to administrative segregation overflow, and medical transportation and guarding. The letter indicates that YACA is completing a review of the needs in these areas.
- (c) 195.1 related to delayed implementation of Control Section 4.10 reductions.
- (d) 225.0 for activated unauthorized posts.

- What is the status of the positions related to the Control Section 4.10 reductions and the unauthorized posts?

Other Operational Efficiencies and Fiscal Controls.

- What operational efficiencies and fiscal controls is CDC considering or implementing

Staff Recommendation. Staff recommends approval of the proposed budget bill language regarding institutional reporting and the budget bill language regarding reconciling post assignment schedules.

Action.

HEALTHCARE SERVICES**9. BSA Audit of Contract Medical (2003-117: April 6, 2004)**

In April 2004, BSA released an audit entitled, *CDC: It Needs to Ensure That All Medical Service Contracts It Enters Are in the State's Best Interest and All Medical Claims It Pays Are Valid*.

According to BSA, contract medical expenditures have increased more than 15 percent in each of the last four fiscal years. The table below shows Contract Medical budget authority versus expenditures for the last few years.

Contract Medical Budget Authority Versus Expenditures			
Year	Budget Authority	Expenditures	Difference
1999-00	\$69,239,000	\$111,337,728	-\$42,098,728
2000-01	\$117,522,060	\$154,934,939	-\$37,412,879
2001-02	\$209,533,000	\$200,626,893	\$8,906,107
2002-03	\$206,419,454	\$239,486,201	-\$33,066,747
2003-04*	\$207,739,303	\$273,000,000	-\$65,260,697
2004-05**	\$207,592,000		

* Estimated expenditures

** Proposed budget

Major Findings of the BSA Audit.

- CDC relies on a 30-year old exemption that allows them to award contracts for most medical services without seeking competitive bids
- CDC's negotiation practices are flawed.
- CDC is unable to justify awarding contracts for rates above its standards.
- CDC sometimes exceeds authorized contract amount and fails to obtain proper approvals before receiving non-emergency services.
- Prisons are not adhering to CDC's utilization management program.

BSA recommendations:

That General Services remove the policy exemption that allows CDC to award medical service contracts without advertising or competitive bidding. At a minimum that CDC use a process that requires prisons to conduct a market survey and prepare a price analysis demonstrating that contract is in the state's best interest.

Improve negotiating practices by obtaining lists of hospitals established rates and using this info during negotiations, enforce its requirements for justifying higher rates, including obtaining and reviewing relevant documentation, establish procedures to ensure that staff negotiating medical service contracts incorporate the use of costs and utilization data and document their use of these data in the contract files, offer its negotiation staff specialized training in effectively negotiating favorable rates.

To fulfill its contract management responsibilities, Corrections should direct its Office of Contract Services (Contract Services) to evaluate late requests using the established criteria, ensure that prisons do not exceed the funding authorized in the contract by requiring Contract

Services to review the contract amount and prisons' existing requests before processing any additional requests, evaluate its contract processes to identify ways to eliminate delays in processing contracts and avoid allowing contractors to begin work before General Services approves the contract.

To improve its efforts to provide only medically necessary services and contain medical services costs, Corrections should ensure that prisons adhere to the UM program guidelines requiring them to perform and retain documentation of their prospective and concurrent reviews, clarify and update the UM program guidelines for performing retrospective reviews, establish a quality control process that includes monthly reviews of a sample of invoices processed by the prisons' HCCUP analyst.

- What is the response of CDC to the audit findings and recommendations?
- The audit highlights instances of overpayments because contracts or bills were not reviewed. What is CDC doing in the short run to correct the deficiencies cited in the audit report?
- Does CDC have sufficient HCCUP analysts to perform contract oversight functions?
- Can the budget for contract services be reduced due to savings and efficiencies?
- What strategies are being pursued to achieve savings and efficiencies in the long run?

10. Use of Medical Registry Contracts

In its report on contract medical, the BSA noted that the use of medical registry contracts is the fastest growing component of contracted medical services. The Table below highlights the annual increases for registry contracts for the last 5 years. Corrections uses registry contracts to provide temporary services when civil servant staff are unavailable or on long-term sick leave. However, prisons are prohibited by state law from using registry staff on a permanent full-time basis and continues recruitment efforts to fill positions.

Growth in Expenditures for Medical Registry Contracts			
Year	Total Expenditures	Increase	Percent Change
1998-99	\$11,722,236	--	--
1999-00	\$14,795,111	\$3,072,875	26.2%
2000-01	\$28,869,934	\$14,074,823	95.1%
2001-02	\$46,790,565	\$17,920,631	62.1%
2002-03	\$63,821,909	\$17,031,344	36.4%

Registry Contracts Used to Fill Vacant Positions. The BSA indicates that its analysis shows that four types of registry contracts comprise 89 percent of total registry expenditures for the five year period they examined. Registry contracts for psychology, psychiatry, and related technician services (37 percent), nursing services (31 percent), physician services (11 percent), and pharmacists and pharmacy technician services (10 percent). Further, the BSA analysis found that for each type of contract, less than nine institutions accounted for about 50 percent of the registry expenditures in 2002-03.

The Table below shows statewide vacancy rates for various healthcare positions. Within these rates, there is wide variations among institutions. For example, a number of institutions have vacancies rates of 5 percent or less for registered nurses – Folsom, Centinela, Pelican Bay, and Norco, while CIW, SATF, CTF, and Salinas Valley have vacancy rates higher than 40 percent (the vacancy rate at Salinas Valley for registered nurses is 79 percent).

Health Care Vacancies as of March 31, 2004			
Classification	Positions	Vacancies	Vacancy Rate
Staff Psychiatrist	169.78	51.25	30.2%
Registered Nurse	977.22	239.27	24.5%
Med Tech Assistant	1,018.23	227.68	22.4%
Psy Social Worker	141.85	28.80	20.3%
Psychologist	393.40	67.55	17.2%

CDC has provided the Subcommittee with HCCUP reports the provide a summary of the registry contracts, including a breakdown of the average cost per hour. Statewide in 2002-03, CDC institutions contracted for 1,353,027 hours from registries for a number of healthcare specialties at an average hourly wage of \$47.17. The Table below highlights the hours and costs for selected specialties at one Institution.

Summary of Registry Contracts for Selected Specialties at Salinas Valley State Prison in Fiscal Year 2002-03			
Specialty	Hours	Costs	Cost Per Hour
Registered Nurse	42,991	\$2,645,458	\$61.53
Psychiatry	6,734	\$733,026	\$108.86
Physician	4,525	\$338,862	\$74.88
Social Worker	2,155	\$109,445	\$50.79
Pharmacist	2,268	\$104,728	\$46.18

Recruitment and Retention. The BSA highlights some of the recruitment and retention bonuses that are available for healthcare positions in order to help CDC fill vacant positions. For example, psychiatrists, psychologists, and psychiatric technicians are eligible for monthly or annual recruitment and retention bonuses ranging from \$200 to \$3,900.

BSA Conclusions. BSA indicates that CDC should continue to monitor prisons' registry contract expenditures and evaluate the prisons' needs so that it can identify opportunities to control expenditures and ensure that prisons are not violating state law by using registry staff on a permanent basis.

Staff Comments. The CDC has provided staff with vacancy rate information on vacancies for certain classifications by institution, and registry contracts by institution. Moving forward, the Subcommittee may wish to get vacancy rates and contract information for hard to fill medical positions by institution to examine the effectiveness of CDC's recruitment and retention efforts for these positions, along with a list of the recruitment and retention efforts made by the department during the year and an analysis of the success of each of the efforts.

11. Costs for Pharmaceutical and Medical Supplies

As can be seen in the Table below, the costs for pharmaceutical and medical supplies has been a growing part of CDC's healthcare budget, and expenditures are greater than budget authority. A number of reports in the last few years, including a BSA report 1001-012: January 2002 have highlighted shortcomings in the area of purchasing, distribution, and the pharmacy IT system.

Medical/Pharmaceutical Supplies

Medical/Pharmaceutical Supplies Budget Authority Versus Expenditures			
Year	Budget Authority	Expenditures	Difference
1998-99	\$40,128,443	\$58,432,655	-\$18,304,212
1999-00	\$55,112,059	\$77,641,803	-\$22,529,744
2000-01	\$97,322,500	\$99,420,032	-\$2,097,532
2001-02	\$78,760,465	\$118,353,185	-\$39,592,720
2002-03	\$121,720,979	\$134,280,552	-\$12,559,573
2003-04*	\$123,919,685	\$139,100,000	-\$15,180,315
2004-05**	\$123,753,391		

* Projected Expenditures

** Proposed Budget

- The Subcommittee may wish to ask CDC what measures have been taken to make improvements in the area in methods of distribution, the principles of cost containment, and purchasing?
- What evidence does CDC have of these improvements?
- What is status of any pharmacy IT system?

12. CDC Support Reappropriations

Finance Letter Request. The Administration has submitted a Finance Letter proposing the following five reappropriations.

- \$799,000 General Fund for the development of the Statewide Offender Management System.
- \$450,000 General Fund for the development of statewide staffing standards for CDC institutions.
- \$360,000 General Fund for the continued development of the Madrid Patient Information System, in relation to the *Madrid* class action.
- \$225,000 General Fund for the implementation of the Health Insurance Portability and Accountability Act.
- \$2,300,000 Inmate Welfare Fund for the development of the Inmate Canteen, Restitution, and Banking System.

Staff Recommendation. No specific issues have been raised for the reappropriations. Staff recommends approval of the Finance Letter request.
Action.

CAPITAL OUTLAY

1. Use of Planning Funds for Preliminary Plans

The budget includes \$1 million for working drawings and construction of a 19 station hemodialysis clinic located at the California Substance Abuse Treatment Facility and State Prison at Corcoran. The LAO has raised concerns about the use of planning monies to fund preliminary plans on future projects.

Item 5240-301-0746(1) of the *2003-04 Budget Act* appropriated \$1 million to the department for "Statewide: Budget Packages and Advance Planning." Provision 1 of that item provides that these funds may be used for "...budget package development, environmental services, architectural programming, engineering assessments, schematic design, *and preliminary plans.*"

In order to maintain the Legislature's options when considering capital outlay proposals, the LAO recommends that Provision 1 of Item 5240-301-0001 of the budget bill be amended to Add the following language.

Prior to using these funds for preliminary plans, the Department of Corrections must provide a 20 day notification letter to the Chairperson of the Joint Legislative Budget Committee, the chairpersons of the respective fiscal committees, and the legislative members of the State Public Works Board discussing the requested action's scope, cost, and future implications.

Staff Recommendation. No issues with the LAO language have been raised. Staff recommends approval of the LAO budget bill language.

Action

2. Capital Outlay Program Administration

The CDC's annual capital outlay budget has averaged around \$140 million over the past five years, ranging from a high of nearly \$300 million to as low as \$22 million. The current budget proposes a further decline in capital spending to its lowest point in the past five years (\$18.8 million). To develop and administer its capital outlay program, the department employs a staff of about 260. In addition, the department has retained a private construction management firm for many years to provide assistance in such areas as program development, consultant selection, contract administration, design management, quality control, design reviews, bid and construction phase services. Since July 2000, this construction management firm has been awarded about \$14 million in contract work and it has about five technical staff dedicated full-time to CDC projects.

LAO Concerns. In light of what appears to be substantial capital outlay resources for design and project management, the LAO has raised concerns regarding the ability of CDC to complete its projects in a timely manner. In the last five years there have been 111 capital outlay reappropriations for the department's projects, a number of them being projects that have been reappropriated more than once. This is evidence that projects are not proceeding on schedule and is symptomatic of problems in the capital outlay program management. The LAO believes this problem is of sufficient importance that the department should report at budget hearings and explain why such a large number of reappropriations have been needed, what improvements to its management processes and structure may be needed, and its plans for implementing those improvements.

3. Capital Outlay Reappropriations

Finance Letter Request. The Administration has submitted a Finance Letter proposing reappropriations for the following seven capital outlay projects.

Staff Recommendation. No specific issues have been raised for the reappropriations. Staff recommends approval of the Finance Letter request.

Action.

- A. **California State Prison, San Quentin, San Quentin: Correctional Treatment Center (CTC), Phase II-Preliminary Plans.** The licensed CTC provides 24-hour skilled nursing care and observation for inmates with sub-acute or chronic medical conditions. The Budget Act of 2003 incorporated the correctional treatment center at San Quentin into the new housing unit for the condemned inmates at San Quentin. The Administration is seeking this reappropriation of preliminary plans in case any contingencies arise in the current year.
- B. **California Rehabilitation Center, Norco: Potable Water System Improvements-Construction.** The project will make various improvements to the existing system to correct the water system deficiencies. This project has been deferred pending review of potential facility closures. Funding of \$1.7 million General Fund for this project was appropriated in the Budget Act of 2002 and reappropriated in the Budget Act of 2003.
- C. **California Correctional Institution, Tehachapi: Wastewater Treatment Plant-Construction.** This project will renovate the existing wastewater treatment plant. The real estate due diligence process has not been completed which prohibits the Department from proceeding to bid, resulting in the proposed reappropriation of the construction funds. Funding of \$15.7 million in lease revenue bonds was appropriated in the Budget Act of 2003.

- D. **California Medical Facility, Vacaville: Mental Health Crisis Beds-Preliminary Plans, Working Drawings, and Construction.** The purpose of this project is to build a new mental health crisis facility. The real estate due diligence process has not been completed which prohibits the Department from proceeding to bid, resulting in the need to reappropriate the preliminary plans, working drawings, and construction funds. Funding of \$16.5 million in lease revenue bonds was appropriated in the Budget Act of 2003.
- E. **Sierra Conservation Center, Jamestown: Effluent Disposal Pipeline-Construction.** The project constructs a new pumping station at the wastewater treatment plant and provides for the appropriate disposal of the effluent. This project has been delayed due to unexpected California Environmental Quality Act permitting issues. These delays have resulted in the need to reappropriate the funds. Funding of \$7.8 million in General Fund was appropriated in the Budget Act of 2001 and reappropriated in the Budget Acts of 2002 and 2003.
- F. **California Institution for Men-East, Chino: Electrified Fence-Preliminary Plans and Working Drawings.** The due diligence process has not been completed, resulting in the need to reappropriate the funds. Funding of \$146,000 from Prison Construction Bond funds was appropriated in the Budget Act of 2003.
- G. **Chuckawalla Valley State Prison, Blythe: Heating, Ventilation, and Air-Conditioning (HVAC) System-Preliminary Plans.** This project installs a centralized HVAC system to repair the existing system damaged from the extreme conditions of the climate. The due diligence process has not been completed, resulting in the need to reappropriate the funds. Funding of \$46,000 from Prison Construction Bond funds was appropriated in the Budget Act of 2002 and reappropriated in the Budget Act of 2003.